

Economic And Trade Relations With Japan: Trade Tensions, Disputes, And Related Issues

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ABSTRACT

There have been serious trade disputes between the U.S. and Japan since the mid-1970s. The source of trade dispute is that the U.S. has had large trade deficits which have been caused mostly by large American imports from Japan, especially in the early 1980s when the dollar was appreciating. Since the 1980s, many disputes have arisen due at least in part, to U.S. allegations that Japanese markets are closed to imports because of restrictive practices such as exclusive dealings between domestic manufacturers and distributors. It is further alleged that the practices are tolerated and even encouraged by the Japanese government. It has long been said that the U.S. and Japan should manage their trade friction wisely, so not to embitter the overall relationship between the two countries. This is based upon recognition of the importance of the Japan-U.S. relationships on the one hand, and of the possibility of serious trade friction on the other. This precept is effective because there always remain countries that may not be able to handle it to mutual satisfaction. This paper will analyze trade disputes, tensions, and related issues between the two economic powers to reduce trade conflicts and to improve overall trade relations. Another purpose is to suggest common grounds to minimize trade conflicts between two countries.

INTRODUCTION

A trade war begins when one country to hurt another country with the help of trade policy measures. The beginning of any trade war is the initiation of an offensive by one nation, A, by means of illicit trade policy measures for the purposes of putting pressure on another on another country, B. This is the first strike stage of an unfolding trade war. Further developments depend on the reaction of the target hit by this first strike. Nation B in theory has several options, e.g. ignore, comply, retaliate, accept mediation or bargain. These responses correspond to a number of scenarios for the further evolution of a potential trade after the first stage; abortive trade war, blitzkrieg, rule-based dispute settlement, multilateralism of rule-making and escalation. Until the 1970s, trade disputes between Japan and the U.S. were mostly related to the surging exports of Japanese products to the U.S. In the 1980s, however, the two countries began to have more disputes over the alleged difficulties foreign producers face when to enter Japanese markets. Many of those disputes were based on U.S. allegations about closed distribution systems and other collusive or restrictive market practices/structure in Japan. Trade wars obviously concern business firms in two or more countries as international commerce is the trans-boundary exchange of goods and services amongst individual companies. Business competition on international markets may certainly sometimes have warlike attributes in the sense that companies may use various dirty measures to promote their interests such as economic espionage or character assassination. Current issues on trade tensions will be investigated.

OVER VIEW OF JAPANESE ECONOMY

Japans industrialized, free market economy is the second-largest in the world. Its economy is highly efficient and competitive in areas linked to international trade, but productivity is far lower in areas such as agriculture, distribution, and services. After achieving one of the highest economic growth rates in the world from the 1960s through the 1980s, the Japanese economy slowed dramatically in the early 1990s, when the “bubble economy” collapsed. Japan’s reservoir of industrial leadership and technicians, well-educated and industrial work force, high

savings and investment rates, and intensive promotion of industrial development and foreign trade has produced a mature industrial economy. Japan has few natural resources, and trade helps it earn the foreign exchange needed to purchase raw materials for its economy. While Japan's long-term economic prospects are considered good, Japan is currently in its worst period of economic growth since World War II. Plummeting stock and real estate prices in the early 1990s marked the end of the "bubble Economy." The impact of the Asian financial crisis of 1997-98 also was substantial. Real GDP in Japan grew at an average of roughly 1% yearly in the 1990's compared to growth in the 1980s of about 4% per year. Real growth in 2003 was 2.7%.

U.S. JAPAN RELATIONS

The U.S.-Japan alliance is the cornerstone of U.S. security interests in Asia and is fundamental to regional stability and prosperity. Despite the changes in the post-Cold War strategic landscape, the U.S.-Japan alliance continues to be based on shared vital interests and values. These include stability in the Asia-Pacific region, the preservation and promotion of political and economic freedoms, support for human rights and democratic institutions, and securing of prosperity for the people of both countries and international community as well. Japan provides bases and financial and material support to U.S. forward-deployed forces, which are essential for maintaining stability in the region. The U.S. currently maintains approximately 53,000 troops in Japan, about half of whom are stationed in Okinawa. Over the past several years the alliance has been strengthened through revised Defense Guidelines, which expand Japan's non-combat role in the regional contingency. After the tragic events of September 11, 2001, Japan has participated significantly with the global war on terrorism by providing major logistical support for U.S. and coalition forces in the Indian Ocean. By April 2004, nearly 1,000 Self defense Force troops were operating in the southern Iraqi city of Al Samawah.

JAPAN-U.S. TRADE RELATIONS

Trade relations between Japan and the U.S. have improved over the past three years as result of the significant decrease in the U.S.' trade with Japan, which was partly a result of the growth of U.S. exports to Japan, and partly due to the settlement of individual trade disputes in the areas of automotive and auto parts, semiconductor products and insurance services. Concern has been voiced by the U.S. about recent increase in Japan's trade surplus with the U.S., which has been recorded since last October, due to the steadily growing U.S. economy and the depreciation of the Yen.. In view of the importance of the trade balance on a global basis, the Government of Japan is committed to promoting further structural reform including deregulation, with a view of achieving economic growth led by domestic demand.

THE NATURE OF U.S.-JAPAN TRADE TENSIONS

We are in a time of renewed between the U.S. and Japan. There have been very sharp and very public criticisms of Japan by top U.S. officials in recent weeks and months; Robert Rubin and Larry Summers from the Treasury Department, Commerce Secretary Daley, and U.S. Trade Representative Barshefsky have all been heard from. The refrains are familiar ones: Japan needs to open up and deregulate its economy so that it imports more and is as dependent for growth. Although the themes are the same, it is important to recognize that the contest is now very different. In the past, tensions were caused by U.S. fears of Japanese strength; now, however, they are due to U.S. fears of Japanese weakness. Formerly, it was thought that Japan's protected home market and relentless export drive posed a predatory threat to the rest of the world. From the Japanese viewpoint, competition policy is becoming even more important for Japan as its government proceeds with deregulation. In relation to the way of handling disputes on restrictive practices will considerably impact the future development of the Japanese competition policy. In short, such disputes should be handled in such way as to help strengthen that policy. The analysis here is placed on the context of Japan-U.S. trade relations. But considering the factors described above. If Japan and the U.S. could construct a better way to deal with disputes over restrictive practices, it would benefit other countries that may have similar disputes. It may also suggest alternative international efforts to develop more effective rules related to trade and competition.

NO GOOD REASONS FOR TRADE DISPUTES

Many economists believe that there is no good reason for this trade dispute. They make three arguments. First, they argue that, given the normal factors that affect trade between nations, the U.S. would be expected to have a trade deficit with Japan. Second, they argue that the large rise in the trade deficit in the 1980s was the result of unusual macroeconomic events—event that is not likely to be repeated. And third, they argue that the Japanese markets are as open as are American markets. American companies could sell in Japan if they made better products and made a more intensive effort to penetrate the Japanese market. In this argument, Japan's trade surplus with the U.S. reflects its comparative advantage. The large increase in the American trade deficit with Japan in the 1980s is the result of the macroeconomic factors. These factors include (1) high savings, (2) high interest rates in the U.S., (3) appreciation of U.S. dollar, (4) that the fact that since 1983 the American economy has been growing faster than the Japanese economy. Finally, these economists argue that the Japanese market is relatively open. They argue that tariff rates are similar to those found in the U.S.; both are quite low. Quotas in Japan exist only for leather and coal briquettes. Export subsidies no longer exist. Non-tariff barriers protect a similar portion of the market in Japan as in the U.S.. In contrast, many other economists, political scientists, journalists, and politicians believed that there is good justification for the American dispute with Japan. Japan needs to make some changes before the two countries can trade fairly. Trade issues have become so polarized that objective facts and indicators become scarce. The Japanese see Americans as trying to compensate for their lack of competitiveness. American negotiators portray the Japanese behavior as a question of fairness, and justify their threats by claiming a history of broken promises. . Although most Japanese individually still have warm feelings towards Americans, they are increasingly impatient with U.S. government attitudes. The "Japan-bashing and political hammering of Japanese cars and electronics by American politicians have been matched by an anti-American movement in Japan.

U.S. TRADING PRINCIPLES AND PRACTICES

The U.S. believes in a system of open trade subject to the rule of law. Since World War II, American presidents have argued that engagement in world trade offers American producers access to large foreign markets and gives consumers a wider choice of products to buy. More recently, American's leaders have noted that competition from foreign producers also helps keep prices down for numerous goods, thereby reducing pressures from inflation. Americans contend that free trade benefits other nations as well. Economists have long argued that trade allows nations to concentrate on producing the goods and services they can make most efficiently—thereby increasing the overall productive capacity of the entire community of nations. What's more, Americans are convinced that trade promotes economic growth, social stability, and democracy in individual countries and that it advances world prosperity, the rule of law, and peace in international relations. An open trading system requires that countries allow fair and nondiscriminatory access to each other's markets. To that end, the U.S. is willing to grant countries favorable access to its markets if they reciprocate by reducing their own trade barriers, either as part of multilateral or bilateral agreements. Are we implementing these principles and practices? Countries believe the U.S. is still values these principles and practices?

KEY PROBLEMS WITH CURRENT U.S. TRADING POLICY

Because of the U.S. government's urgency to improve the trade deficit, its policy toward Japan has not addressed the relationship in its wider context. Through the strategy of aggressive unilateralism, the U. S. has generated more friction than justified by this unilateral posture. Overall trade policy has been disjointed, alternating its focus from trade to security issues. The U.S. has demanded change in trade relations while upholding the current security relationship. Critics of U.S. policy argue that U.S. aggressive unilateralism and managed trade violate the principles of the multilateral free trade system. The U.S. has been weak in its public-relations effort to gain support for its trade policy. Pressure is growing to reduce U.S. troops stationed in Japan. Persistent U.S. trade deficits with Japan frustrate U.S. politicians and business leaders. Since Japan had already eliminated most tariffs and quotas by the mid-1980s, U.S. policy under the Bush administration shifted to demand structural reforms of the Japanese economy. The U.S.-Japan Mutual Security Treaty traditionally offset trade controversies and stabilized the relationship.

PERIODIC STRAINS IN RELATIONS WITH JAPAN

Relations periodically have been strained by differences over trade and economy issues, and less often, over divergent foreign policy stances. Strains arising from trade issues peaked about 1995, as Japan's unprecedented slow growth contrasted with the U.S. economy's steady expansion and rising international competitiveness, and, for a time, the widely watched U.S. trade deficit with Japan began to decline substantially. The end of the Cold War and collapse of the Soviet Union called into question some of the strategic underpinnings of the alliance within both the American and Japanese publics. After a period of strategic uncertainty in both countries over how to respond to the post Cold War situation in East Asia, leaders on both sides saw their interests as best served by strengthening the U.S.-Japan alliance to support respective strategic interests in the region. The U.S. and Japan share the same broad objectives regarding the unstable Korean Peninsula, but Japanese officials frequently have expressed a feeling of being left out of U.S. decision making.

ECONOMIC ISSUES AND TRADE

Japan's economy has been anemic at best, and at times in decline, for most of the 10 years. Economists and policymakers in Japan and in the U.S. have attributed Japan's difficulties to a number of factors. One has been the effects since the beginning of the 1990s of the burst of the economic "bubble," which saw the value of land and other assets collapse. Furthermore, some analysts point to Japanese fiscal policies that have emphasized budgetary restraint and increased taxes that have also kept a lid on demand. In the long term, Japanese and U.S. economists point to rigid government regulations that stifle productivity in a number of sectors. The U.S. and others have been pressuring Japan to undertake deregulation. The U.S. and Japan are closely tied economically. Japan ranks third to Canada and Mexico as the largest U.S. export market. The U.S. ranks as Japan's number one export market and import supplier. Besides the growing imbalance in bilateral trade, the U.S. and Japan confront a range of issues, any or all of which could lead to sharpened tensions. In May 2005 the U.S. had a total merchandise trade deficit of \$710 billion, while Japan and Germany scored a cumulative trade surplus of \$324 billion (\$125+\$199 billion). The average American citizen owes \$6,551 in federal debt to foreign interests, because of our nation's excessive federal spending and our consuming more from the rest of the world than we produce. A family of 4 owes more than \$26,206 in this regard, of which 38% is owed to Japanese investors. The U.S. has experienced trade deficits with Japan; these became especially large in the 1980s. They also did not fall as much as expected after the dollar started depreciating. Also, Japanese practices are threatening certain strategic American industries; this could have serious long-term effects on American life. The trade deficits have had an effect on jobs in America. They may also have cost American some of its manufacturing capacity, which threatens its leadership in technological innovation. The Japanese see their market as open. They believe that they are doing everything possible to remedy the American grievances. They believe that Americans are blaming them for problems caused by Americans.

AREAS OF DISPUTES AND TENSIONS

We are in a time of renewed tensions between the U.S. and Japan. There have been very sharp and very public criticisms of Japan in the following areas:

- Debates on U.S. beef products.
- Japan needs to open up and deregulate its economy so that it imports more and is less dependent on exports for growth.
- Japan's protected home market and relentless export drive posed a predatory threat to the rest of the world.
- Japan systematically discriminates against foreign market entrants.
- Import restrictions, export control, and currency manipulations by Japanese government.
- Its failure to stimulate domestic economic growth.
- Disputes on U.S. agricultural products.
- Japanese market needs to be more open to manufactured exports from developing countries in order to sustain their growth.
- Japan has a responsibility to help promote global growth.
- Japanese government intervention and control in the services sector.

- Binding of all the major elements of the bilateral measures previously agreed with the U.S. on insurance, banking and other financial services.
- Protective policies remain in some professional services.
- There have been no major changes in Japan's tariff structure.
- Port and customs procedures for imports remain lengthy by developed-country standards.
- Too many technical barriers in Japan with little information on the total number of such regulations are available.
- Japan's import and investment promotion programs include substantial government incentives, yet it is not evident that these programs fully address the obstacles encountered.
- Japan's implementation of tariff requirements under the WTO resulted in a significant increase in the number of specific rates. Japan has triggered Special Safe Guard under the WTO Agreement for a number of products subject to tariff.
- Structural problems with Japanese markets.
- Rule-based policies by Japanese government.
- Implementation of "liberalization countermeasures" by Japanese government.
- The main protection of the Japanese market now comes from non-tariff barriers. Japanese government should reduce non-tariff barriers to improve trade relations.
- Japanese market is still closed against U.S. companies.
- Critics of U.S. policy argue that U.S. aggressive unilateralism and managed trade violate the principles of multilateral free trade system. The U.S. has been weak in its public-relations effort to gain support for its trade policy. The U.S. government should encourage more bilateral and multilateral trade relations.

SOLUTIONS TO THE PROBLEMS

- Emphasize alliance cooperation.
- Emphasize U.S. Trade and Economic Objectives.
- "Bypass" all negotiations with Japan.
- Emphasis on multilateral dispute settlement mechanism, including establishing a bilateral process of dispute resolution.
- More comprehensive and cooperative arrangement for trade and investment between the two countries.
- Less Japanese government control and intervention in markets and more transparency in the administrative process.
- The U.S. trade policy should combine low-key bilateral negotiations and WTO dispute settlement for more controversial issues.
- The U.S. should be flexible regarding possible reduction of troops stationed in Japan.
- Opportunities should be taken for deepening U.S. engagement in East Asia through cooperation with Japan in regional security forums and efforts to increase trust and support for arms control.
- Structural reforms of the U.S. and Japanese economies should be discussed in the context of bilateral negotiations.
- Concessions by the U.S. on issues of concern to Japan will help to build a pattern of reciprocity.
- The U.S. should cooperate with Japan on global concerns with Japan.

CONCLUSION

American trade negotiators have been chipping away at Japanese trade and investment barriers for the past thirty-five years. At times, as in 1993-95, the bargaining process has been very public and tense. Gradually, official barriers to both trade and investment have fallen, and negotiators have worked out many agreements on other policies, including procedures on government procurement, standards, testing, customs, and others. But success is incomplete. Japan in the late 1990s still seems to be a less hospitable environment for foreign corporations than other industrial or even some developing countries. Of course there will continue to be trade conflicts between the U.S. and Japan. That is inevitable given the commercial stakes, and given continuing U.S. perceptions of Japan as an unfairly closed market. And of course, Japan does have its share of real trade barriers. The difference now, though, is that these

conflicts no longer undermine U.S. confidence in the liberal trading order. In that sense at least, the U.S. –Japan trading relationship has become normalized. At the end, the United States and Japan will be good trading partners in many years ahead even though we are expecting some level of trade tensions and disputes.

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